

Message Text

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: GERMAN FIRMS PREFER DEUTSCHEMARK
IN FOREIGN TRANSACTIONS

1. ACCORDING TO AN ANALYSIS OF THE HAMBURG INSTITUTE FOR ECONOMIC RESEARCH (HWWA), IN FOREIGN TRADE GERMAN FIRMS THINK FIRST OF SECURITY AND CONSEQUENTLY MISS OUT ON POSSIBLE PROFITS TO BE MADE IN FOREIGN EXCHANGE DEALINGS. THE REPORT, WHICH WAS REQUESTED BY THE ECONOMICS MINISTRY, IS BASED ON A SURVEY OF GERMAN FIRMS. ACCOUNTING FOR ABOUT ONE-THIRD OF THE VALUE OF ALL GERMAN EXPORTS AND ONE-SIXTH OF IMPORTS.

2. HWWA FOUND THAT SMALL AND MEDIUM-SIZED FIRMS HAD A STRONG PREFERENCE FOR DENOMINATING TRANSACTIONS IN DEUTSCHEMARKS. THIS, THE REPORT CONTINUES, CERTAINLY REDUCES FOREIGN EXCHANGE RISKS ON THE EXPORT SIDE, BUT
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ON THE OTHER HAND, MEANS GIVING UP POTENTIAL GAINS TO BE MADE IN FOREIGN EXCHANGE MOVEMENTS WHEN IMPORTING. A LACK OF EXPERTISE AND RELATIVELY MODEST TRANSACTION VOLUMES ARE LISTED AS REASONS FOR THE SECURITY-MINDED STANCE OF THE MID TO SMALL-SIZED ENTERPRISES. HOWEVER, MAJOR FIRMS SEEM ALMOST AS AVERSE TO TRANSACTIONS IN FOREIGN CURRENCIES, HWWA FOUND. TRADING COMPANIES ARE

MORE FLEXIBLE, HWWA REPORTS, AND ARE PREPARED TO ASSUME THE RISKS AND REWARDS OF DEALING IN FOREIGN EXCHANGE.

3. HWWA'S ANALYSIS REVEALED THAT IN THE FIRST HALF OF 1976 APPROXIMATELY 87 PERCENT OF GERMAN EXPORTS WERE PAID FOR IN DM. THE DOLLAR, BROKEN OUT AS THE ONLY OTHER CURRENCY WORTH MENTIONING, WAS THE FORM OF PAYMENT FOR ANOTHER 4.6 PERCENT. SINCE THE INTRODUCTION OF FREELY FLOATING EXCHANGE RATES, HWWA COMMENTS, THE DOLLAR HAS LOST IMPORTANCE IN GERMAN EXPORT BUSINESS. THE REASON FOR THE HIGH LEVEL OF DM-DENOMINATED EXPORTS, ACCORDING TO THE STUDY, IS THAT GERMAN FIRMS ARE WELL PLACED IN THE WORLD MARKET BECAUSE OF THE HIGH QUALITY NATURE OF THEIR PRODUCTS.

4. ON THE IMPORT SIDE, THE SHARE DENOMINATED IN DM WAS 43.0 PERCENT -- JUDGED "RELATIVELY HIGH" BY HWWA. 31.0 PERCENT OF IMPORTS ARE PAID FOR IN DOLLARS. COMMENTING ON FACTORS DETERMINING THE CURRENCIES IN WHICH IMPORTS ARE PAID, HWWA EMPHASIZES THE PREFERENCE OF FOREIGN EXPORTERS TO RECEIVE PAYMENT IN DM BECAUSE THEY CAN PROFIT FROM THE "CONTINUING APPRECIATION" OF THE DEUTSCHEMARK.

5. THE RESULTS OF THE SURVEY SHOWED, IN ADDITION, THAT GERMAN FIRMS ARE EVENLY DIVIDED IN THEIR PREFERENCE
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FOR A FIXED OR A FLEXIBLE EXCHANGE RATE SYSTEM. STOESSEL

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